INTRODUCTORY STATEMENT

PRESS CONFERENCE

Mario Draghi, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 26 July 2018

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Regarding **non-standard monetary policy measures**, we will continue to make net purchases under the asset purchase programme (APP) at the current monthly pace of €30 billion until the end of September 2018. We anticipate that, after September 2018, subject to incoming data confirming our medium-term inflation outlook, we will reduce the monthly pace of the net asset purchases to €15 billion until the end of December 2018 and then end net purchases. We intend to reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of our net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

While uncertainties, notably related to the global trade environment, remain prominent, the information available since our last monetary policy meeting indicates that the euro area economy is proceeding along a solid and broad-based growth path. The underlying strength of the economy confirms our confidence that the sustained convergence of inflation to our aim will continue in the period ahead and will be maintained even after a gradual winding-down of our net asset purchases. Nevertheless, significant monetary policy stimulus is still needed to support the further build-up of domestic price pressures and headline inflation developments over the medium term. This support will continue to be provided by the net asset purchases until the end of the year, by the sizeable stock of acquired assets and the associated reinvestments, and by our enhanced forward guidance on the key ECB interest rates. In any event, the Governing Council stands ready to adjust all of its instruments as appropriate to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Quarterly real GDP growth moderated to 0.4% in the first quarter of 2018, following growth of 0.7% in the previous three quarters. This easing reflects a pull-back from the very high levels of growth in 2017 and is related mainly to weaker impetus from previously very strong external trade, compounded by an increase in uncertainty and some temporary and supply-side factors at both the domestic and the global level. The latest economic indicators and survey results have stabilised and continue to point to ongoing solid and broad-based economic growth, in line with the June 2018 Eurosystem staff macroeconomic projections for the euro area. Our monetary policy measures, which have facilitated the deleveraging process, continue to underpin domestic demand. Private consumption is supported by ongoing employment gains, which, in turn, partly reflect past labour market reforms, and by growing household wealth. Business investment is fostered by the favourable financing conditions, rising corporate profitability and solid demand. Housing investment remains robust. In addition, the broad-based expansion in global demand is expected to continue, thus providing impetus to euro area exports.

The risks surrounding the euro area growth outlook can still be assessed as broadly balanced. Uncertainties related to global factors, notably the threat of protectionism, remain prominent. Moreover, the risk of persistent heightened financial market volatility continues to warrant monitoring.

Euro area annual HICP inflation increased to 2.0% in June 2018, from 1.9% in May, reflecting mainly higher energy and food price inflation. On the basis of current futures prices for oil, annual rates of headline inflation are likely to hover around the current level for the remainder of the year. While measures of underlying inflation remain generally muted, they have been increasing from earlier lows. Domestic cost pressures are strengthening and broadening amid high levels of capacity utilisation and tightening labour markets. Uncertainty around the inflation outlook is receding. Looking ahead, underlying inflation is expected to pick up towards the end of the year and thereafter to increase gradually over the medium term, supported by our monetary policy measures, the continuing economic expansion, the corresponding absorption of economic slack and rising wage growth.

Turning to the **monetary analysis**, broad money (M3) growth increased to 4.4% in June 2018, up from 4.0% in May. M3 growth continues to benefit from the impact of the ECB's monetary policy measures and the low opportunity cost of holding the most liquid deposits. The narrow monetary aggregate M1 remained the main contributor to broad money growth.

The recovery in the growth of loans to the private sector observed since the beginning of 2014 is proceeding. The annual growth rate of loans to non-financial corporations rose to 4.1% in June 2018, after 3.7% in the previous month, while the annual growth rate of loans to households remained unchanged at 2.9%. The euro area bank lending survey for the second quarter of 2018 indicates that loan growth continues to be supported by easing credit standards and increasing demand across all loan categories.

The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – in particular for small and medium-sized enterprises – and credit flows across the euro area.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of **structural reforms** in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Regarding **fiscal policies**, the ongoing broad-based expansion calls for rebuilding fiscal buffers. This is particularly important in countries where government debt remains high. All countries would benefit from intensifying efforts towards achieving a more growth-friendly composition of public finances. A full, transparent and consistent implementation of the Stability and Growth Pact and of the macroeconomic imbalance procedure over time and across countries remains essential to increase the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council urges specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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In the assessment you just presented, did you have a chance to review the agreement struck between the EU Commission President and the US President overnight with regard to trade? Is this assessment only regarding sentiment regarding protectionism? Or are you seeing an actual impact on growth already materialising?

The second question is a 'did you discuss' question: did you discuss your reinvestment policy today and if so, could you give us any kind of colour about this discussion? What decisions need to be made and when should we expect a decision on reinvestment policy?

Draghi: On the first question really, we basically took note of that. It's too early to assess the actual content. I understand that this afternoon the Commission is having a meeting exactly for this reason. We took note of this meeting and if one can say something that's general, it's a good sign because it shows that there is a willingness to discuss trade issues in a multilateral framework again. It would be difficult for us to go beyond that because we really don't know the substance of it.

On the second question, no, we didn't discuss the reinvestment policy today.

You've suggested that interest rates will stay below zero for the next year or so. How comfortable are you making those kind of predictions or forecasts so far into the future given inflation is already above target and you sound relatively confident about the outlook for the economy and inflation?

My second question is, so the ECB is holding rates below zero while the Fed is raising rates quite quickly; I think it plans another two rate hikes this year. That's leading to a divergence between the two central banks, which has also weighed on the euro over the last few months. Do you think President Trump has a point when he complains about how Europe is weakening its currencies?

Draghi: On the first question, let me stress that our enhanced forward guidance, which is both date-based and state-contingent, conveys the Governing Council's expectations that key ECB interest rates, as I said in the Introductory Statement, will remain, we expect them to remain at their present levels at least through the summer of 2019 and, in any case, for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below but close to 2% over the medium term. Now, this enhanced forward guidance has been very effective, as broadly reflected in surveys, market commentary and market prices, in aligning expectations of the future rate path with the anticipations of the Governing Council. At this stage we don't see the need to modify or to add new language to our forward guidance on rates.

Now, on the second question, different monetary policies do reflect the response of monetary authorities to different positions in the business cycle. We said several times that the exchange rate is not a policy target; that it's important for growth and price stability. There is an international consensus that has been going on now for years – for decades, perhaps – about abstaining from competitive devaluations, so that's the answer.

Incidentally, if one looks at the nominal effective exchange rate of the euro vis-à-vis all the partners, all the trading partners, as a matter of fact the euro has appreciated considerably over the last year, year-and-a-half.

I have a question again about the impact of protectionism. You obviously mentioned that you take note of the agreement. But also in your accounts of the last meeting you said that the impact on inflation from potential protectionist measures could be – is ambiguous, uncertain. Have you taken a deeper look into it and maybe you have already answers or a potential impact from those effects?

My second question: I know that you mentioned you didn't discuss reinvestment policies, but could you give us a broad outline on sort of your red lines where reinvestment policies won't change in the second phase when the net asset purchases are over?

Draghi: On protectionism, no, we haven't done any further analysis than I have outlined last time and the reason is that we basically have to see exactly what's going to be implemented. We've seen and we have analysed that the implemented, the direct effects of implemented tariffs, as I said last time, are limited. But clearly, a trade war where you have rounds of retaliation and rounds of responses would create an entirely different climate. We would have to assess both the direct effects, which may be significant as the numbers significantly go up, and the indirect effects of confidence on – especially on business investment. We haven't done anything different from last time yet, so we'll have to assess in the future.

Now, on the reinvestment, we haven't discussed it. Certainly, just to make it clear, the capital key remains our anchor in what we do on reinvestments, just to clear the slate from any doubt. That's it.

I have two questions as well: one on euro economic optimism for the eurozone because looking also at recent confidence indicators, there is a clear sign that the looming trade uncertainties have an impact already now and also looking at the current earning season. What makes you still so optimistic?

Second question would be on: given the inflation rate being back at your target, whether there is an increasing discussion inside the Governing Council among its members. Of course that it’s perhaps time to even decrease the monetary stimulus in place.

Draghi: I think the best way to answer both questions is to give you a short account of what's been our discussion today. Well, first of all, the Governing Council took note that there hasn't been much of a change since last time; has not been a change in the assessment of the outlook – of the medium-term outlook – for growth or inflation, nor in the monetary policy message.

The first point is that it's now clearer than it was before that the moderation in growth – and here I am addressing your first question – depends essentially on the pullback from the unusually strong growth rates that we've seen in the first – the last three-quarters last year, which were caused by – predominantly by an unusually strong export performance. Now there is a pullback and the export performance is much less strong than it was before. Some sluggishness in the first quarter is continuing in the second quarter. But I would say almost all indicators have now stabilised at levels that are above historical averages.

Overall the risks to growth have been assessed as still broadly balanced. Financing conditions remain stable and the labour market continues to improve, thereby supporting private consumption. Also the accommodative monetary policy and the resulting financing conditions do support private investment, as we can see from the figures.

Now, on inflation – and here I am coming to the other point of your question – it's true that headline inflation is now 2% from 1.9%, but if you look at the inflation, so the next question that one should ask is – is this going to be sustained? The answer is that if we look at inflation excluding oil and food it's now 0.9% from 1.1% last time. The underlying inflation remains muted so we see encouraging signs here and there. It's very early to call victory.

Now, one positive development is the nominal wage performance where, you remember, we've seen a pickup in nominal wage growth across the eurozone. Until recently this pickup was mostly produced by wage drift, while now we are seeing that there is a component, which is the negotiated wage component, which is now – right now the main driver of the growth in nominal wages. The conclusion was that the assessment of confidence that we expressed in Riga about convergence of inflation to our objective, is still warranted. But an ample degree of monetary accommodation remains necessary. Therefore prudence, patience and persistence are still going to be the keywords that inform, inspire our monetary policy.

Two questions, if I may. First, just to touch on a point that you made about wages being a lot stronger than people maybe would've thought at the start of the year. You've seen better-negotiated pay deals. I'd like your view on how you think this will impact domestic demand. Is it going to have an impact on domestic demand that's strong enough to offset the negative effects that we've seen of weaker trade figures? Or would you still expect to see some slowdown in growth in the second half of this year?

Secondly, some people have said there's a little bit too much ambiguity about the phrase 'through the summer'. The changes to some of the translations of the monetary policy statement have raised these issues again. Would you care to clarify just what is meant by 'through the summer'? Is it at least until the end of the summer when rates are expected to remain on hold until? Or is it at least until the summer of next year?

Draghi: First of all, I'll address first the second question. Let me clear: the only version that conveys the policy message is the English version. We conduct our Governing Council in English and agree on an English text, so that's what we have to look at. Now, as you've seen, the term structure of money market rates reflects the – it reflects two things; reflects the pure expectations of the future path of the policy rates, but reflects also the uncertainty that surrounds the evolution of the economy.

As I think I said last time, as far as pure expectations are concerned, they are very well aligned with the anticipation of the Governing Council that policy rates will remain at their current levels through the summer of next year. Surveys of market views confirm this very tight alignment. Then you have the uncertainty component in the term structure; this of course tends to be more variable and shifts with risk perceptions. What we see is that this component now may have increased since our June announcement due to various factors, including the state of the debate on trade.

Let me now address the first part of the question about whether we can see an impact coming from higher nominal wage growth that could compensate trade. Frankly, we haven't done this analysis yet but we do see growth rates stabilising at this level, which is actually pretty good for the eurozone after this unusual performance in exports. We do expect the second part of this year to continue being on solid growth, broad based across sectors and across countries.

One question about the TARGET2 system: how do you weigh the risk in this system especially for the Bundesbank and also compared to the Bank of Italy, for example?

Draghi: Now, first of all let me make a general point. TARGET2 is a payment system. As such it doesn't generate instability. It's the way in which a monetary union settles its payments and it's devised to make sure that money flows unencumbered across countries, individual sectors, companies – all economic agents. That's the first thing that we should always keep in mind.

The second thing is; how do we interpret recent numbers, which show an increased number of TARGET liabilities of certain countries? Well, this again is a question that was asked several times in the past. Most of the movement in TARGET2 liabilities depends on our own asset purchase programme and depends on how and where – especially where – the balances of the purchases of bonds are settled. About 50% of the institutions – at least this was the number until a few months ago but I think it's still valid – 50% of the institutions that sell bonds to the national central banks are not in the euro area and settle their account with one or two core countries where the financial centres reside.

In this sense you see that the accounting and settlement of the balances do depend on where the settlement is made. It has nothing to do with capital flows [flight] from one country or another. Just keep in mind: 80% of the institutions that sell – banks, namely – that sell bonds to the national central banks do not reside in the country where the purchasing national central bank resides. You'll have a lot of inter-country payments and flows that do not say anything very specific about the overall situation.

Going back to the recent movements in the liabilities of certain countries, you see that first of all they are not unprecedented. It's not the first time; we've seen movements as large or even larger in the past. Second, as a consequence of what I just said, they are of a second order with respect to the massive movements produced by our own purchase programme. The bottom line is, the system works very well. The people who want to cap it, collateralise, limit – the truth is that they don't like the euro. They don't like the monetary union because the only way a monetary union can work is if it has an efficient payment system, which is what TARGET2 is. I think it's just too early to understand exactly what part of the liabilities do reflect political uncertainty.

You mentioned the capital key as an anchor for the reinvestment purchases. There will be a revision of the capital key; I think next year it's due. You can easily compute something like

those countries which have had more growth in the past, they will have bigger share of the capital then in the future. What implications would this have for the reinvestments, or would this affect the reinvestment of bonds then?

Draghi: I'm sorry, we haven't discussed that at all so I can't answer this question now. We actually haven't discussed anything about reinvestment policy, but you can have another question if you want.

We have today the anniversary of the ‘Whatever it Takes’ over six years ago. Would you say that since then, the Governing Council members all agree that we have – that the ECB has new tools in its toolbox and amongst these, the TLTROs, QE and also OMTs and negative interest rates.

My second question is linked to negative interest rates because I don't want you to look – go too much into forward guidance. But there is also another anniversary now, which is the last increase of interest rates. We have been staying many years in the negative interest rates world. Even if interest rates are going to go up next summer at the end of it or in autumn, are we going to have still years of negative interest rates before we get back to a positive deposit rate?

Draghi: Frankly, I had not realised all these anniversaries myself! When I read about some market commentaries recalling that this is the anniversary of this and now you telling me about this other anniversary, I was surprised. At least then I ask myself; what does it show? I think it shows that these are very distant times. Especially the anniversary from the 2012 speech tells that basically, today the euro is – they look so distant because the euro is now on much stronger foundations than it was then at that time. I think that's very much due to the fact, to the important reforms that have been undertaken by our governments in terms of completing, though there is still a road to do – to go, in completing and strengthening our monetary union and by structural reforms undertaken by national governments.

In the Introductory Statement I said that they have to be decisively stepped up; that's true. But this has the danger of making us forget how much has been done already in this field. It's true, the ECB now is a different central bank. It's true what you said; it has a very different and much, much richer set of monetary policy tools and so that is certainly important. The real reason for the Governing Council to be proud is that it has delivered price stability. It has delivered price stability in the most difficult circumstances through all these years. I'll stop here because I speak too much about these anniversaries.

The ECB has cut Greece ELA to around 8 billion euros. Do you think Greece is now closer to a full reintegration into the ECB's programmes?

My second question is, will the presidency succession debate be unduly influenced by expectations of a rate hike somewhere around the time of your departure?

Draghi: The answer about Greece is, we take note and actually we welcome the successful actions undertaken by the Greek Government so far. We are looking forward to a successful completion of the programme. I take your words of reintroduction of Greece into the programme as whether Greece can be part of QE. Right now, Greek paper, Greek Government bonds are not eligible for QE. So, they need a waiver. The waiver was there while the programme was in place. After the programme expires, the waiver expires and that's what it is right now.

The other point is kind of strange; why should rate hikes be influenced? Maybe in the perverse minds of some market players might – this may be true, but certainly not in the Governing Council members' minds.

You risk becoming the first governor in the history of a central bank worldwide that – to have never raised interest rates. Was that a precise will?

Second question: we have fought against deflation and recession with an unconventional monetary policy. Why do we have to fight this inflation by oil price with the conventional monetary policy?

Draghi: I think both questions are answered saying that we live through an extraordinary time in the aftermath of a great financial crisis, which in many countries actually took the shape of a Great Depression, as severe as – for certain aspects, even more severe than the Great Depression itself. Therefore the proper monetary policy response was the one that was decided by the Governing Council throughout these years. I think both questions can be answered in this way. The extraordinary historical circumstances produced a pretty exceptional monetary policy response.

My first one is also on reinvestment. You stressed several times that you didn't discuss it today. In June you said that you have to decide on that in the next couple of months. I guess you would subscribe to the fact that it's a very important point, so why didn't you discuss it today? Is the Governing Council not wasting time when it comes to deciding on reinvestments? Related to that, very general: should we see reinvestment as a pure technical process, or is it something that could also be used to give monetary – an additional monetary impulse?

The second one is on the future of your monetary policy. The account of the June meeting said that the forward guidance would be the tool of choice for adjusting the monetary policy stance in the future. Does that mean if the outlook worsens, especially on inflation, the preferred option would be to change the forward guidance on rates instead of changing the QE outlook, meaning extending QE again?

Draghi: I'll answer the second question, because the first question has a quick answer; we haven't discussed it. We haven't discussed it even when to discuss it.

The second question is: as you've seen, as I've stressed in the last Riga monetary policy council, all the statements, the Introductory Statement and all the formulation of all the monetary policy tools, contain a repeated optionality and flexibility, putting the Governing Council in an ideal position to react to events. Some of these events are part of a foreseeable future based on the current set of information. Some other events may well not be foreseeable at the present time. We don't want to exclude the possibility that they may happen. That's why we retain a high degree of optionality.

Let me say something that I should've said at the very beginning. We are actually witnessing a drama – a tragic drama of spectacular proportions in Greece. I just want to express the solidarity and the closeness of the Governing Council members to the Greek people on this occasion. Thank you.

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